

Message Text

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
OMB-01 DOE-11 /117 W

-----019391 150500Z /23

R 150400Z FEB 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9314

INFO USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 1246

GENEVA FOR USEEL MTN

E.O. 11652: GDS

TAGS: ETRD, EALR, KS

SUBJ: KOREAN IMPORT LIBERALIZATION MEASURES

REF: A) 77 SEOUL 329, B) SEOUL A1139, 6/19/77, C) SEOUL A-48,
3/18/77, D) SEOUL A-163, 9/9/77, E) 77 SEOUL 4971,
F) SEOUL A-154, 8/19/77, G) 77 SEOUL 5653, H) SEOUL A-200, 11/22/77,
I) 77 SEOUL 9970, J) 77 SEOUL 10214, K) SEOUL A-222, 12/28/77,
L) SEOUL A-20, 2/1/78, M) SEOUL A-211, 12/12/77, N) SEOUL
A-21, 2/1/78, O) SEOUL 1123, P) STATE 35642

SUMMARY: THIS IS IN RESPONSE TO REF (P), ASKING FOR A
REVIEW OF KOREAN IMPORT LIBERALIZATION MEASURES TO DATE AND
THE OUTLOOK FOR FUTURE PROGRSS. URRENT PERIOD OF IMPORT
LIBERALIZATION GREW OUT OF KOREA'S STRONG EXPORT PERFORMANCE
IN 1976. MOMENTUM BUILT UP GRADUALLY THROUGH 1977, BUT
STEPS TAKEN SO FAR HAVE NOT MADE A SIGNIFICANT DENT IN
KOREA'S HIGHLY RESTRICTIVE IMPORT REGIME. PLANS FOR
1978 CONTINUE TO REFLECT A RATHER CAUTIOUS APPROACH TO
LIBERALIZATION; CONTINUED US PRESSURE COULD, HOWEVER,
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HELP SPEED UP THE PROCESS. -- END SUMMARY.

QHA FOR THE SAKE OF HISTORICAL PERSPECTIVE, IT IS WORTH
NOTING THAT KOREAN GOVT HAS INTRODUCED BRIEF PERIODS
OF IMPORT LIBERALIZATION IN THE PAST. FIRST SUCH EPISODE
WAS IN 1964-66, IN THE WAKE OF A CURRENCY DEVALUATION
WHICH LEFT KOREA WITH A RELATIVELY FAVORABLE BALANCE OF

PAYMENTS POSITION FOR A TIME. NEXT BIG STEP WAS TAKEN IN 1967, WITH CONVERSION FROM A "POSITIVE LIST" TO A "NEGATIVE LIST" SYSTEM OF IMPORT CONTROLS (I.E. FROM A SYSTEM OF LISTING ITEMS WHICH COULD BE IMPORTED--ALL OTHER BEING RESTRICTED--TO A SYSTEM OF LISTING ONLY THOSE SUBJECT TO RESTRICTIONS--ALL OTHERS BEING FREELY IMPORTABLE. NEGATIVE LIST SYSTEM IS INHERENTLY MORE OPEN.) ALMOST IMMEDIATELY, HOWEVER, KOREA'S BALANCE OF TRADE ENTERED INTO A LONG PERIOD OF GRADUAL DETERIORATION, IMPROVING SOMEWHAT IN 1972-73, BUT THEN HIT HARD BY THE OIL SHOCKS OF 1974-75. DURING WHICH TIME KOREA'S CURRENT ACCOUNT DEFICIT PLUNGED TO \$2 BILLION FOR TWO CONSECUTIVE YEARS. THIS ENTIRE SEVEN-YEAR PERIOD (1968-75) WAS MARKED BY CONTINUED TIGHT RESTRICTIONS ON IMPORTS AND NO SIGNIFICANT MOVEMENT IN THE DIRECTION OF LIBERALIZATION, EXCEPT IN 1972 WHEN A FEW MODEST STEPS WERE TAKEN IN CONNECTION WITH THE ECONOMIC STABILIZATION PROGRAM.

2. KOREA'S EXTRAORDINARY EXPORT PERFORMANCE IN 1976, DOUBLING FOREIGN EXCHANGE RESERVES FROM \$1.5 TO \$3.0 BILLION, SET THE STAGE FOR THE CURRENT ROUND OF IMPORT LIBERALIZATION. BEGINNING WITH A TRICKLE OF MEASURES IN LATE 1976 AND EARLY 1977, THE MOMENTUM OF IMPORT LIBERALIZATION--FUELED BY KOREA'S CONTINUED STRONG PERFORMANCE IN THE EXPORT SECTOR--HAS GROWN TO WHAT

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MIGHT NOW BE TERMED A MODEST BUT STEADY STREAM.

3. SPECIFIC MEASURES WORTH OF NOTE HAVE ALL BEEN REPORTED SEPARATELY, AND INCLUDE THE FOLLOWING:

--JAN 77: INTRODUCTION OF FIRST PHASE OF UNITARY TARIFF SYSTEM, WHICH SHOULD EVENTUALLY HAVE A LIBERALIZING EFFECT (REFS A AND B);

--JAN 77 TO PRESENT: STEP-BY-STEP DISMANTLING OF PRIOR IMPORT DEPOSIT SYSTEM (REFS C AND DL);

--JUNE 77: UNDER TRADE PLAN FOR 2ND HALF OF 1977, 22 PREVIOUSLY BANNED OR RESTRICTED COMMODITY ITEMS SHIFTED TO AUTOMATIC APPROVAL (AA) STATUS (REFS E AND F);

--JULY 77: AN ADDITIONAL 24 BANNED OR RESTRICTED IMPORT ITEMS SHIFTED TO AA (REF G);

--FALL OF 77: A SERIES OF MINOR LIBERALIZATION MEASURES, CATALOGUED IN REF (H);

--NOV 77: AN ADDITIONAL 60 BANNED OR RESTRICTED
IMPORT ITEMS SHIFTED TO AA (REF I);

--DEC 77: UNDER THE TRADE PLAN FOR THE 1ST HALF
OF 1978, AN ADDITIONAL 126 BANNED OR RESTRICTED
ITEMS SHIFTED TO AA (REFS J AND K). CCORDING
TO GOVT CLAIMS, EFFECT OF NOV AND DEC MEASURES
COMBINED WILL BE TO INCREASE 1978 IMPORT
BY \$500-1,000 MILLION;

--JAN 77: UNDER ADMINISTRATIVE GUIDELINES ISSUED
IN CONNECTION WITH TRADE PLAN FOR 1ST HALF OF
1978, ADDITIONAL IMPORT LIBERALIZATION MEAS--
URES--INCLUDING ABOLITION OF EXPORT/IMPORT
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LINK LIST--ANNOUNCED (REF L).

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 1246

C O R R E C T E D C O P Y (PARA 4. LINE 1 ADDED)

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4. THESE MEASURES ARE STEPS IN THE RIGHT DIRECTION BUT
HAVE NOT YET MADE A SIGNIFICANT DENT IN KOREA'S ALL-

PERVASIVE SYSTEM OF IMPORT RESTRICTIONS (SEE REFS M AND N FOR COMPLETE DESCRIPTION). FOR THE MOST PART, FREED ITEMS CONSIST OF RAW MATERIALS AND CAPITAL GOODS NEEDED TO BOOST KOREAN EXPORTS; LIBERALIZATION MEASURES DO NOT AS YET REFLECT SERIOUS EFFORT TO EXPOSE DOMESTIC PRODUCERS TO FOREIGN COMPETITION OR PROVIDE KOREAN CONSUMERS WITH BEST COMBINATION OF PRICE AND QUALITY. TOTAL EFFECT OF MEASURES TAKEN DURING YEAR MAY HAVE BEEN TO INCREASE 1977 IMPORTS BY SOMETHING ON THE ORDER OF \$100-\$200 MILLION.

5. IN 1978, IT IS APPARENTLY ROKG'S INTENTION TO FOCUS ON FOLLOWING PRIORITIES: (A) LIBERALIZATION OF FOOD IMPORTS, AS PRICE STABILIZATION MEASURE; (B) LIBERALIZATION OF SELECTED RAW MATERIALS AND CAPITAL EQUIPMENT, AS MEANS OF MAKING KOREA'S EXPORT INDUSTRIES MORE CONFIDENTIAL

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COMPETITIVE; (C) LIBERALIZATION OF TECHNOLOGY IMPORTS, TO SAME END; (D) GRADUAL EASING OF END-USER REQUIREMENT, WHEREBY IMPORTS OF MOST RESTRICTED-LIST ITEMS ARE LIMITED TO END-USERS ONLY (REF N); AND (E) RAPID PROGRESS TOWARDS SYSTEM OF "PRE-ANNOUNCED" IMPORT LIBERALIZATION, WHEREBY FREEING OF IMPORT RESTRICTIONS WILL BE ANNOUNCED 6 MONTHS, A YEAR, OR MORE IN ADVANCE. THIS CONTINUES TO BE A RATHER CAUTIOUS APPROACH BUT ALL IN ALL SOME PROGRESS IS BEING MAINTAINED.

6. THE ROKG CLAIM, THAT LIBERALIZATION MEASURES INCORPORATED INTO CURRENT TRADE LPAN WILL INCREASE 1978 IMPORTS BY \$500-\$1,000 MILLION, IS OPEN TO QUESTION. IT IS APPARENTLY BASED, IN PART, ON A KOREA DEVELOPMENT INSTITUTE STUDY PROJECTING WHAT 1978 IMPORTS WOULD HAVE BEEN BASED ON CONDITIONS EXISTING IN 1966-76. KDI PROJECTION (GENERALLY CORROBORATED BY USING SEPARATE BANK OF KOREA MODEL) IS THAT 1978 IMPORTS WOULD HAVE BEEN ROUGHLY \$12.5 BILLION, ALL OTHER THINGS BEING EQUAL. OFFICIAL ROKG TARGET OF \$13.2 BILLION, THEN, SUPPOSEDLY DEMONSTRATES THAT ALTERED CONDITIONS (IN THE FORM OF IMPORT LIBERALIZATION) ARE EXPECTED TO LEAD TO AN ADDITIONAL \$700 MILLION IN IMPORTS. THIS ANALYSIS STRIKES US AS A BIT SHAKY AND MAY EXAGGERATE SOMEWHAT THE IMPACT OF IMPORT LIBERALIZATION MEASURES TAKEN TO DATE.

7. ROKG POLICY TOWARDS IMPORT LIBERALIZATION IS STILL A MATTER OF HEAVY INTERNAL DEBATE. THE MINISTRY OF COMMERCE AND INDUSTRY CONTINUES TO ARGUE STRONGLY AGAINST RAPID MOVEMENT ON THE CONTENTION THAT KOREAN PRODUCERS CANNOT YET WITHSTAND ACROSS-THE-BOARD FOREIGN

COMPETITION, AND THAT THE OUTLOOK FOR FURTHER EXPORT
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GROWTH IS CLOUDED BY OVERSEAS PROTECTIONISM. THE ECONOMIC PLANNING BOARD AND THE KOREA DEVELOPMENT INSTITUTE HAVE TAKEN A DIFFERING VIEW ON BROAD MACRO-ECONOMIC GROUNDS, WHILE MINISTRY OF FINANCE HAS STRADDLED THE FENCE. UP TO NOW, FORCES OF CONSERVATISM HAVE SUCCEEDED IN KEEPING MOVEMENT TOWARDS LIBERALIZATION AT A CAUTIOUS PACE. INCREASINGLY, HOWEVER, CURRENT INFLATIONARY PRESSURES (CAUSED IN PART BY EXCESSIVE FOREIGN EXCHANGE HOLDINGS) ARE CONVINCING MANY FENCE-STRADDLERS THAT A FASTER PACE MAY BE NECESSARY--IF FOR NO OTHER REASON THAN TO KEEP PRICES DOWN TO AN ACCEPTABLE LEVEL. THE INFLATION FACTOR WILL CONTINUE TO CONSTITUTE A POWERFUL ARGUMENT IN FAVOR OF IMPORT LIBERALIZATION IN THE MONTHS AHEAD.

8. AT THIS JUNCTURE, THERE IS REASON TO BELIEVE THAT CONTINUED STEADY PRESSURE FROM THE UNITED STATES AND OTHER TRADING PARTNERS MAY HAVE A DECISIVE EFFECT IN SPEEDING UP THE PROCESS OF IMPORT LIBERALIZATION. THE KOREANS ARE SENSITIVE TO SUCH REPRESENTATIONS AND, AS POINTED OUT IN REF (O), WOULD LIKE TO AVOID THE KIND OF CONFRONTATION OVER TRADE ISSUES THAT WE HAVE HAD WITH JAPAN. THERE IS A DEFINITE LIMIT TO HOW FAR AND HOW FAST THE KOREANS WILL MOVE--SUBSTANTIAL LIBERALIZATION OF CONSUMER GOODS, FOR EXAMPLE, IS PROBABLY YEARS AWAY--BUT THE PACE WILL DEPEND TO SOME EXTENT ON OUR OWN DEMONSTRATION OF INTEREST, BOTH WITHIN AND OUTSIDE OF THE MTN FRAMEWORK.

9. ASIDE FROM IMPORT LIBERALIZATION PER SE, ROKG DESIRE TO REDUCE TRADE DEFICIT VIS-A-VIS JAPAN OFFERS A PROMISING LINE OF APPROACH IN PURSUIT OF U.S. INTERESTS. AS SUGGESTED REF (O), WE SHOULD BE ABLE TO REDUCE OUR OWN DEFICIT VIS-A-VIS KOREA BY TAKING OVER PART OF THE JAPANESE SHARE OF THE MARKET. SEPTTEL PROVIDES FURTHER INFORMATION ON THIS POSSIBILITY FROM MCI PERSPECTIVE,
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AS WELL AS CURRENT MCI LINE ON GENERAL SUBJECT OF IMPORT
LIBERALIZATION.
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Message Attributes

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Draft Date: 15 feb 1978
Decaption Date: 01 jan 1960
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Disposition Action: RELEASED
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TAGS: ETRD, EALR, KS
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